

CITY OF BOSTON
Presentation on the Impact of Local Aid

February 22, 1989

1947-1948

LOCAL AID FACT SHEET

Local Aid Is A Necessity

Local aid is a form of revenue sharing, whereby the state returns tax dollars back to its cities and towns. Local aid significantly increased after the passage of Proposition 2½ in order to prevent drastic reductions in services delivered by cities and towns and to prevent many communities from heading into financial disaster. The Local Aid Fund, by statute, consists of 40% of the so-called "growth" taxes; i.e., sales, income and corporate, which is subsequently distributed to cities and towns. Smaller amounts of local aid are also provided by the State Lottery. Cities and towns receive an estimate of their local aid distributions for the upcoming fiscal year when they receive their "cherry sheet" from the Commonwealth of Massachusetts. Early receipt of that document is needed in order to prepare, debate and pass the annual budget for a city or town for the following fiscal year.

Boston's dependence upon local aid is greater today than ever. Fully 37% of the city's budget is based on local aid revenue. In FY84 local aid was 31% of the city's revenue base. In FY81 local aid was just 21% of the city's revenue budget. Boston - and all cities and towns - are inextricably reliant on local aid which is needed in order to maintain municipal services as education, human services, police, fire, public works, health care and parks.

The following exhibit traces the increase in state distributions to the City of Boston which are then used to fund needed city services:

Exhibit I

City of Boston Local Aid Distributions to Boston

FY84 - FY89

<u>Fiscal Year</u>	<u>Net State Aid Less Assessments</u>	<u>Dollar Increase</u>
84	\$238.5	--
85	258.0	+19.5
86	287.9	+29.9
87	340.6	+52.7
88	366.6	+26.0
89 est.	379.6	+13.0

(In Millions)

Note: There are several ways to calculate local aid. The amounts listed above are from the cherry sheet and are net of assessments which the city must pay for certain state operations, the largest of which is the MBTA. It is also net of certain funds such as C.121A distributions and teacher pension reimbursements which, in the former case, is simply deferred property taxes which are paid to the state and then handed over to Boston and, in the latter case, is money which the state is obligated to pay by law as a reimbursement for teacher pension costs incurred by the City of Boston and for all cities and towns.

Local Aid Needs To Grow In Order To Keep Pace With Inflation

Given that local aid is the virtual equivalent to property tax revenue in terms of its significance to the City of Boston, it is clear that a so-called "level funding" of local aid will deeply affect the ability of the City to deliver city services and manage city operations. **In truth, "level funding" really means cutting services.** Such an unwarranted action by the Commonwealth does not take into account the impact of inflation, contractually obligated collective bargaining increases, increases in health insurance and pension costs, or required increases in debt service. To simply maintain current service levels the City budget needs to modestly increase from one year to the next. In a very real sense the City budget is no different than a household budget in that some increase is necessary just to keep pace with the cost of living. Given the City's need to provide services for all its citizens, especially those most in need, that incremental growth is not a luxury but a necessity.

While Boston's budget requires some growth, that growth has been consciously restrained. As a result, the city now has a balanced budget after years of running a deficit. **When compared to expenditure increases in the federal and state governments since FY81, the City's growth is a distant third, 66%, 98%, and 43%, respectively.**

Boston's Share Of Local Aid Has Been Decreasing

While the amount of money to cities and towns for local aid has generally increased over the past several years, there has been a significant shift in state policy as to Boston's relative share of local aid, compared to other cities and towns. Over the past several years, and over our opposition, Boston's share of local aid has been decreasing, as can be seen in the following exhibits:



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Exhibit 2

City of Boston
Comparison of Resolution Aid and
Lottery Aid to Boston to Statewide Total

<u>Fiscal Year</u>	<u>New Resolution Aid</u>	<u>%</u>	<u>New Lottery Aid</u>	<u>%</u>
84	\$29,676,029 out of \$145,000,000	20.5%	\$12,369,120 out of \$96,772,200	12.8%
86	\$27,096,227 out of \$145,900,000	18.6%	\$15,061,641 out of \$175,000,000	8.6%
88	\$23,400,000 out of \$135,600,000	17.3%	\$18,321,451 out of \$215,000,000	8.5%
90 (H.1)	\$19,200,000 out of \$120,000,000	16.0%	\$20,619,000 out of \$251,455,700	8.2%

See Charts 1 and 2.

The question needs to be posed, however, as to how much local aid has been lost as a result of Boston's declining share of local aid. The answer to that question is shown in the following exhibit.

Exhibit 3

City of Boston
Lost Local Aid Distributions

FY84-FY89

<u>Fiscal Year</u>	<u>Statewide Resolution Aid</u>	<u>% Share</u>	<u>Statewide Lottery Aid</u>	<u>% Share</u>	<u>Lost Revenue</u>
84	\$145,000,000	20.5%	\$96,000,000	12.8%	--
85	137,500,000	20.5%	146,900,000	12.8%	(\$1,470,000)
86	145,900,000	20.5%	175,000,000	12.8%	(\$5,050,000)
87	241,100,000	20.5%	195,000,000	12.8%	(\$16,500,000)
88	135,600,000	20.5%	215,000,000	12.8%	(\$13,600,000)
89	70,000,000	20.5%	297,000,000	12.8%	(\$8,100,000)
Cumulative Local Aid Loss					(\$41,720,000)

The Commonwealth Has Not Kept The 40% of Revenue Growth Local Aid Commitment

Finally, it should be noted that the Commonwealth's obligation to fund local aid from 40% of its "growth" revenue will not be met for FY90, even if the Governor's budget recommendations are adopted. Indeed, if the Governor's revenue estimates occur, local aid distributions will only reflect about 20% of tax growth for FY90. Unfortunately, it is also true that for most years local aid distributions have fallen far short of the 40% mark. From FY84 up to and including the proposed FY90 budget, local aid to the 351 cities and towns has been shortchanged by over \$514 million.

The Commonwealth Should Not Solve Its Financial Problems At the Expense of City and Towns

Cities and towns provide a wide range of critical services, not provided by the Commonwealth. That fact was best summed up by the following statement.

"As it happens, cities and towns...deliver the services which are most important to the vast majority of our citizens - police and fire protection, public education, trash removal, libraries, local parks and recreation, and street maintenance. A squeeze on local government, therefore, shifts money away from these most basic services." Ed Moscovitch, Boston Herald, p. 27, February 20, 1989.

It is not unreasonable to suggest that the public's faith in government, not to mention the specific need to maintain community support when tough decisions need to be made, hinge upon the continuation of essential services. Reducing services only adds fuel to the argument that government does little and should be further cut back. Further, it is equally reasonable to point out that future state revenue growth is dependent upon communities such as Boston being able to provide the range of services necessary to attract and keep the kind of business investment and job opportunities that have led to the Commonwealth's overall success. Forcing Boston to cut services will inevitably lead to additional declines in the Commonwealth's revenue base.

For all of these reasons, it is critical that local aid be restored and not become a budget and political football. Basic service needs and economic growth depend upon the health of Boston and all of our cities and towns.

Federal Aid Fact Sheet

The state's substantial revenue growth in the 1980's has obscured the magnitude of federal budget cuts that Boston has suffered during this decade. Four major cutbacks suffered by the City of Boston during the 1980's are as follows:

	<u>FY81</u>	<u>FY89</u>
General Revenue Sharing	\$21.8 million	-0-
Job Training	\$24.8 million	\$ 4.9 million
Community Development Block Grants	\$26.1 million	\$18.3 million
Urban Development Action Grants	<u>\$21.6 million</u>	<u>-0-</u>
TOTAL	\$94.3 million	\$23.2 million

Therefore, for these four programs alone, Boston now loses an annual amount in excess of \$70 million (\$71.1 million). This does not include cuts in other federal programs such as assisted housing construction and drug treatment programs, nor does it include the imposition of new costs on localities (such as Medicare costs for state and local employees), nor does it factor in inflation.

What does this mean in terms of services for Boston's residents?

- o It means that \$21.8 million in general revenue sharing -- funds that under the Flynn Administration were applied to the police budget -- is not available to fight crime and drugs in our neighborhoods.
- o It means that we have almost \$20 million a year less to provide job training, summer jobs for our young people, and retraining opportunities for displaced workers.
- o It means almost a thirty percent reduction (before inflation) in federal support for housing and community development programs in Boston's neighborhoods, through the Community Development Block Grant program. This cut is compounded by the elimination of the Urban Development Action Grant program, which the Flynn Administration has used to build new affordable housing in neighborhoods including Charlestown, Roxbury, East Boston and Dorchester.

Today, there are few, if any, in Washington who foresee any restoration of these programs -- given the extent of the federal deficit. This year, President Bush has proposed a variety of

relatively small new initiatives in the areas of homelessness, education and drug prevention. While these initiatives are welcomed, they are more than offset by the President's proposed "flexible freeze," through which \$9.6 billion must be cut from unspecified domestic programs. But whether or not these cuts take place, or whether small increases occur, they will be dwarfed by the cuts that have already occurred.

Finally, it must also be noted that the shift in federal programs from direct funding of cities to the increased pass through of funding through states has also cost Boston its fair share of many programs. According to a study entitled "Reagan and the States,"

"Massachusetts exerted increased influence over the (federal) operating programs by changing the allocation of grants in aid...Two important consequences followed, Boston tended to lose funds relative to the rest of the state, and money generally was spread more widely...Boston sustained cuts in alcoholism, drug rehabilitation and maternal and child health programs because state administrators felt other localities had higher priority needs." (Pg. 152)

A good example of this type of funding allocation is the first year of State and Local Law Enforcement Assistance Grants under the Anti-Drug Abuse Act of 1986. Through this program, Boston received about \$100,000 or 4 percent of the approximately \$2,500,000 granted to the state, despite the acute need for more resources to fight drugs in our city. By comparison, over \$400,000 was retained by the state to "administer" this grant.

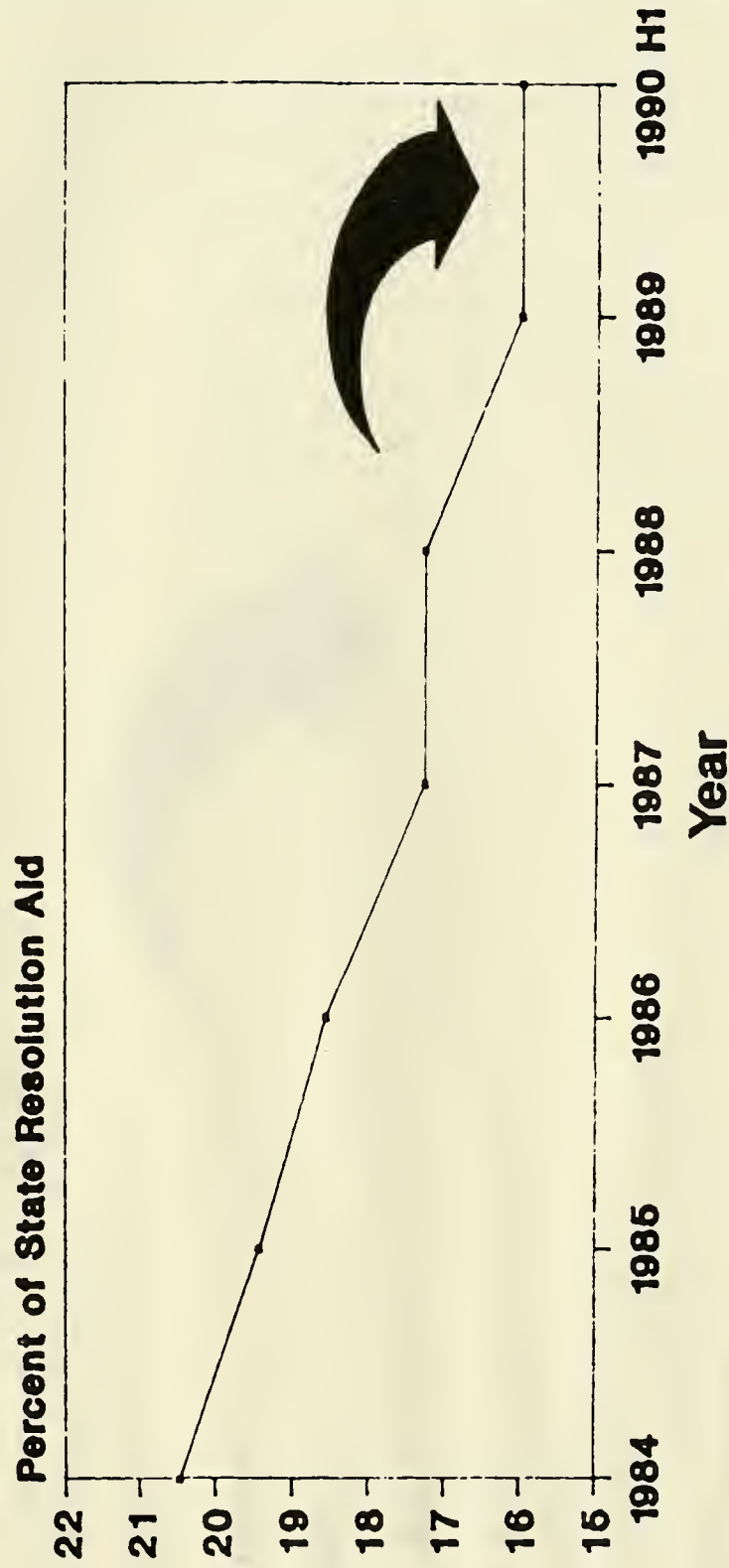
COST SAVINGS AND MANAGEMENT FACT SHEET

- Realized significant savings in debt service costs on new borrowing due to the Administration's receiving five credit upgradings from Standard and Poor's and Moody's.
- Achieved three straight balanced budgets (FY86, FY87, and FY88). This is a dramatic change in fiscal condition of the City since it follows a decade long series of deficits.
- Created the Office of Budget and Program Evaluation, which completely revamped the city's budget process. City now has a comprehensive program budget and performs systematic reviews of program performance.
- Created a Capital Planning Office which thoroughly reviews and prioritizes all capital project requests, thereby making maximum use of the City's carefully controlled capital spending.
- Maximized allowable property tax levy increases under the rules of Proposition 2½.
- Reduced the use of one-time revenues for recurring expenditures to approximately one percent of the budget. Recurring revenue now matches recurring expenditures.
- When the City was still in a deficit position, took strong action including reducing growth in departmental spending down to 1% at the same time that recurring revenues were increasing by over 11%.
- Sponsored and lobbied for new local option revenue sources and succeeded in obtaining a room occupancy excise and an aircraft fuel excise. These new taxes have added significantly to the local tax base and succeeded in adding some diversity to Boston's tax base.
- Controlled personnel spending through an increasingly stringent implementation of its allotment system.
- Administratively adopted an additional 1% reserve in the personnel expenditure allotment for all city departments for FY89.
- Submitted the City's first ever revenue budget in FY85, and created a revenue monitoring unit in the Budget Office to closely track receipts during the year as well as make recommendations for improved collections.
- Improved collections on late and unpaid property taxes.

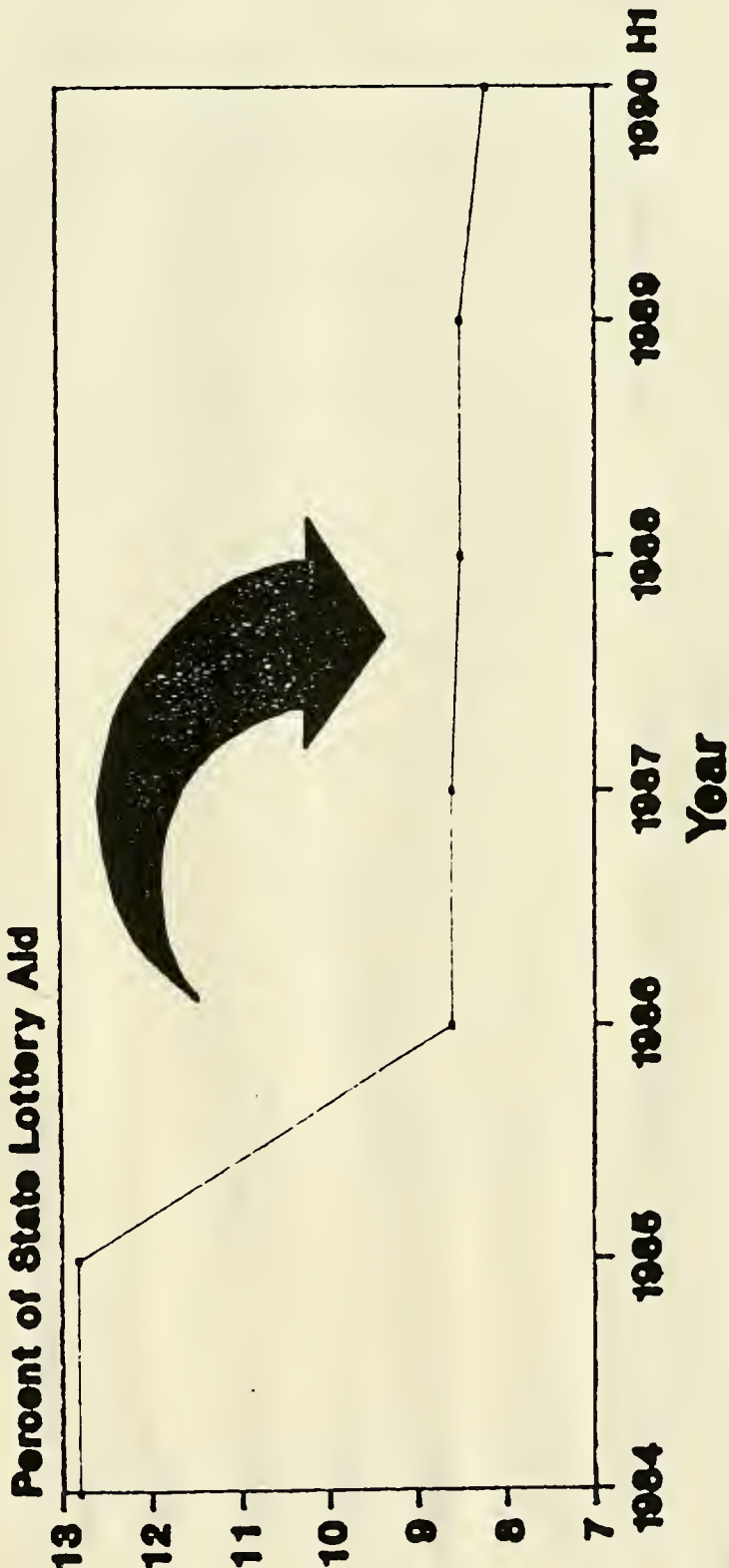
- Submitted a subsequently approved comprehensive fee, fine and license package in FY85. This and other measures have kept the City's non-tax local source revenues growing as fast as property tax and state aid receipts.
- Sponsored and succeeded in obtaining successful legislation which increased controls over School Department spending.
- Developed a comprehensive management training program which targets the improvement of management skills as a means to more efficient delivery of city services.
- Instituted a monitoring program in order to control overtime costs, which have increased as demand for services have increased.
- Improved collecting procedures for parking tickets which have increased significantly the City's collection rate on parking tickets.
- Significant liabilities have been removed from the City's balance sheet by the resolution of the Boston Edison case, the last of the Tregor cases of any significant size.
- Established a Linkage program which requires downtown developers to provide jobs and housing for Boston residents. These linkage programs have already yielded over \$17 million in benefits for City residents.
- Adopted the Pension Reform Act and committed itself to eliminating its unfunded pension liability.
- Implemented a new computerized financial management and accounting system, enabling more efficient and accurate tracking of expenditures and on-line access for program managers to monitor program spending.
- Improved valuation of property, resulting in a significant decrease in the City's awarding of abatements in excess of available overlay reserves.

Resolution Aid

Boston's Declining Share

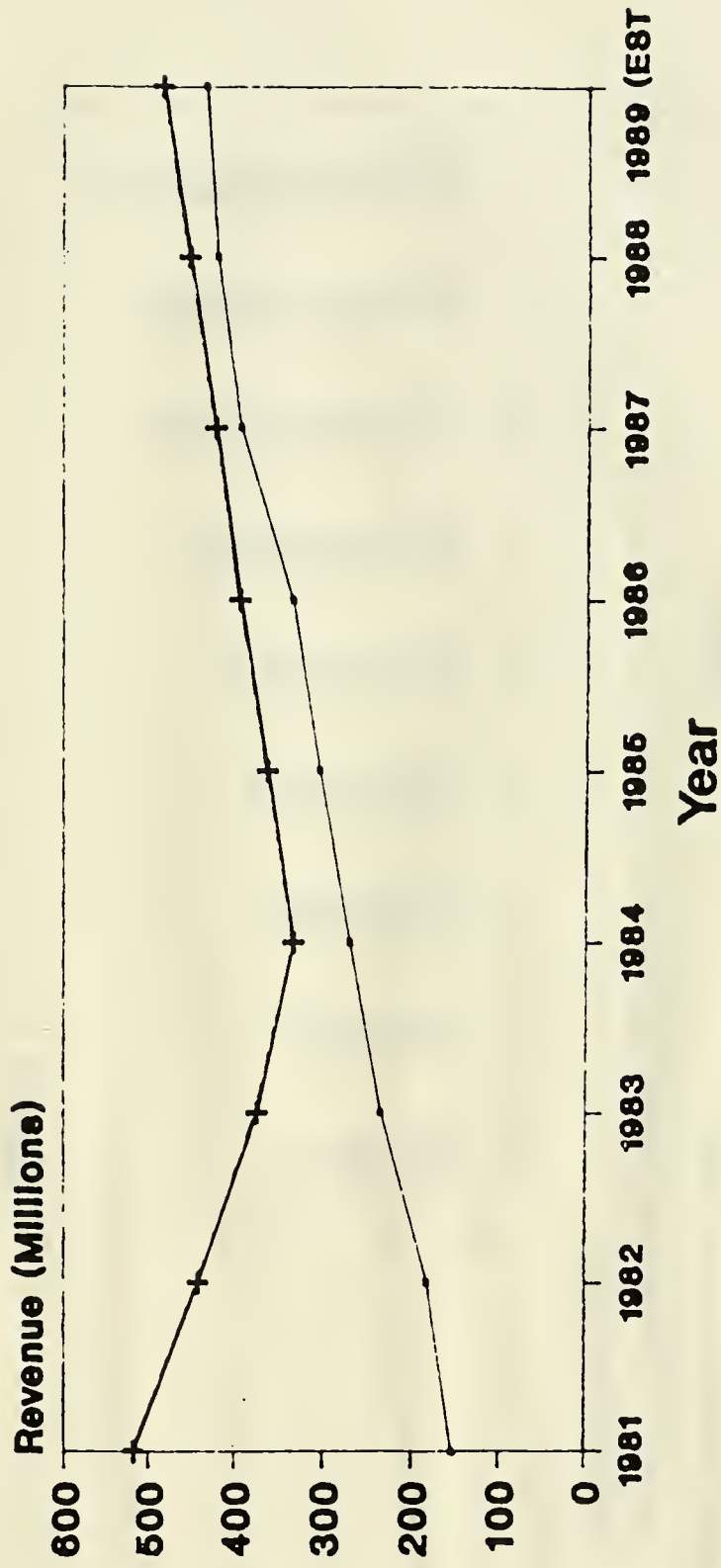


Lottery Aid Boston's Declining Share



--- Boston's Share

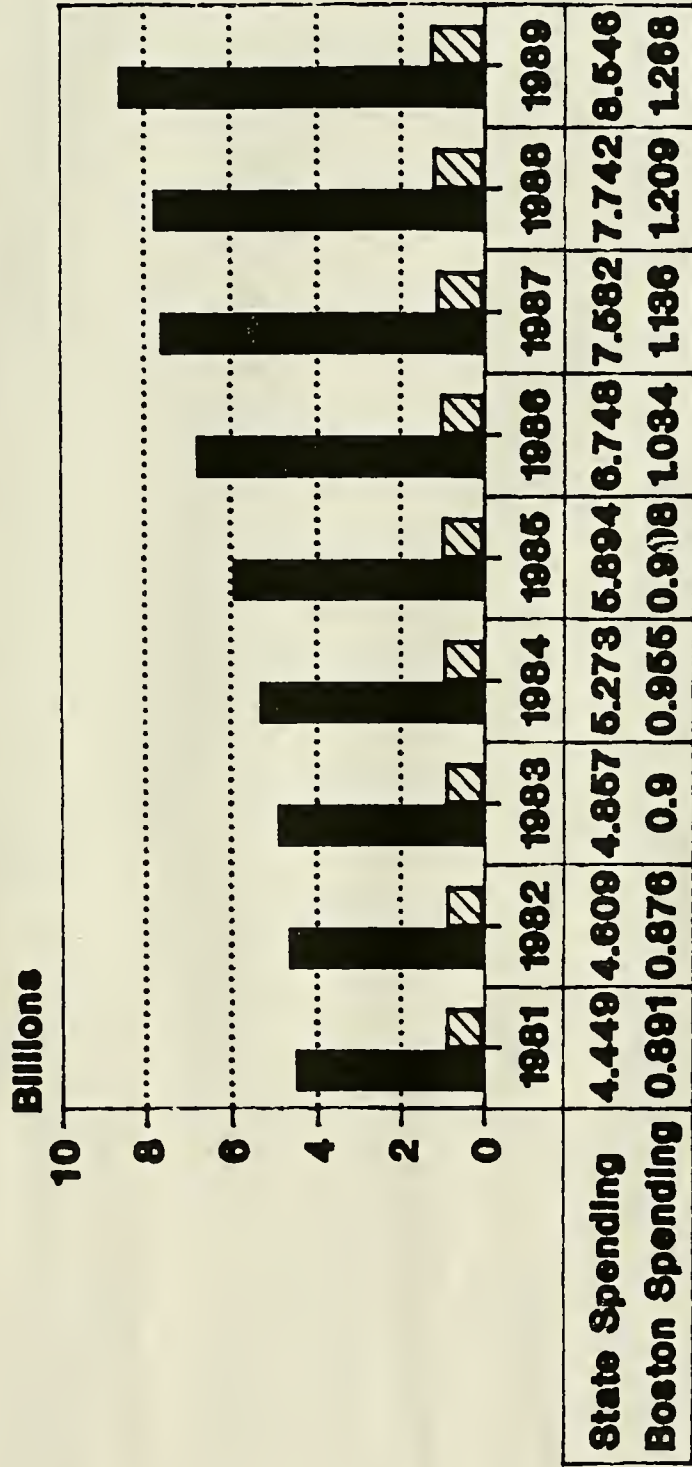
Growing Reliance on State Aid Property Tax Revenues vs. State Aid



• Cherry Sheets (less assessments)

Spending: State vs. Boston

Growth in Expenditure Disparity



• Mass. Taxpayers Foundation

•• Office of Budget and Program Evaluation

■ State Spending * ▨ Boston Spending **

State Spending Totals Exclude Local Aid

